THE PROCESSING TAX

Five especially prepared persons and a leader are needed to develop this discussion. Each of the five should prepare himself on one of the five sub-topics in this discussion, by studying the questions at the beginning of the sub-topic and the factual material which follows. If possible the references should be obtained and studied also. The five especially prepared persons, sometimes called "team members", should be ready to respond informally when their topics are introduced by the leader. This does not mean that the five should make speeches, but that they should start the discussion by outlining the high points, as they see them, in the topic under consideration. It is also their job to know the facts on their particular topic so that the general discussion may not go astray. They are, in other words, "discussion starters", and "discussion anchors", to get talk started and to keep it from running wild away from the facts.

The five sub-topics under the subject: "The Processing Tax." are:

I. Are Processing Taxes Necessary in Adjusting Agriculture?

II. The Processing Tax: What It Is, and How Handled.

III. How the Processing Tax Has Affected the Farmer.

IV. How the Processing Tax Has Affected Consumers.

V. Advantages and Disadvantages of Processing Taxes.

References

Report of the Secretary of Agriculture 1934. Washington, U. S. Government Printing Office. 1934 (10¢)

Agricultural Adjustment - G-8, Agricultural Adjustment Administration Washington, D. C.

"Who Pays for the Hog Reduction Program?" - Iowa Experiment Station Bulletin No. 317, Ames, Iowa.

Basic Questions and Answers on Agricultural Adjustment - Agricultural Adjustment Administration, Washington, D. C.

Achieving a Balanced Agriculture, G-20, Agricultural Adjustment Administration, Washington, D. C.

Economic Bases for the Agricultural Adjustment Act, U. S. Government Printing Office, 1933. (10¢)

Prepared by Southwestern Office, Division of Information, AAA, College Station
T E X A S

THE PROCESSING TAX

TOPIC I. Are Processing Taxes Necessary in Adjusting Agriculture?

1. Why is adjustment needed in agriculture at present?

2. How much land is needed at present to supply the American market? The foreign market?

3. What would be the price of adjustment without some kind of program?

4. Do you think the American people should pay the farmer to adjust?

5. Why is the processing tax called "the farmer's tariff"?

6. Why have efforts to adjust and to market cooperatively often been defeated in the past?

7. In what three ways does the farmer benefit from the processing tax-adjustment program?

8. Describe other ways in which adjustment might be brought about.

9. Would you favor compulsory adjustment?

10. What other forms of taxation have been suggested for obtaining money for financing farm adjustments?

TOPIC I. Are Processing Taxes Necessary in Adjusting Agriculture?

Why Adjust Production?

People often ask why there is need to reduce or shift or adjust production. Look at agricultural America as one big farm. Prior to the crop-control programs of 1933, we planted about 375 million acres. Crops were harvested from about 360 million acres. During five years of the "prosperity era", 1925-1929, the American people ate the products from about 287 million acres of land each year. Factories in America used up the non-food products such as cotton and tobacco and flax from about 25 million acres more, including acreage required for workstock. The American people, in other words, consumed the products from 312 million acres of land. Farmers exported the products from 66 million acres during the five years ending in 1929, but in 1932-33 this dropped to 44 million acres, and in 1933-34 to between 35 and 40 million acres produced for the export market.

We have this situation, then: not more than 340 million acres of land are at present needed to produce for both the American and the foreign market, and the products from about 20 million acres are without a ready market. As matters now stand that excess production can ruin prices for the entire production of the American farmer, as it did in 1932.

In the long run there may be other and better ways to keep up the farmer's buying power, but right at present it seems that unless farmers adjust their production to what the market will buy at a fair price farm income will fall to very low levels again.

Adjustment Without a Program

It is true that, without adjustment programs and processing taxes, farm production would eventually balance itself with market demand. Such an adjustment would come about through forcing farmers entirely out of production, dispossessing them from their farms and their means of livelihood, until there were only enough farmers left to provide the commodities that the market would take at prices that would keep the surviving farmers in business. Such an adjustment would be costly to farmers and to the Nation. It was under way in 1932.

Why Benefit Payments in an Adjustment Program Are Justified

Benefit payments to farmers are obtained from processing taxes. Benefit payments are not charity. From the point of view of the nation these payments are justified because they form part of the pay that society owes the farmer for necessary services. The market place is not at present supplying enough pay to enable him to continue these services. Failure of the market to pay a fair price to farmers endangers society as well as the farmer. The principle of parity prices recognizes the fundamental concept that those who perform needed services for society must have a fair share of the national income.

In the second place, benefit payments are justified because the tariffs on manufactured goods have reduced the farmer's export markets and raised prices on what farmers have to buy. The benefit payments help to put the farmer on an equal footing with tariff-protected industries. The processing tax is, in a sense, the farmer's tariff. It, or something like it, will be needed as long as high tariffs are maintained.

From the point of view of farmers the processing taxes and benefit payments are justified because they enable farmers to adjust their production to the normal demands of the country. The benefit payment rewards the cooperating farmer and protects the cooperating majority from the actions of a minority who do not cooperate. Past efforts of farmers to cooperate in marketing have nearly always been hampered or defeated by non-cooperating minorities. Now the cooperating farmer can gain from the increased total income from farm products, from the lessened costs of producing a smaller volume, and from the benefit payments.

Various Methods of Adjustment

Adjustment of farm production in order to obtain fair prices might be accomplished in one, or a combination of several, ways:

1. Voluntary adjustment, with benefit payments to protect cooperators against the action of non-cooperators. This is the general plan now followed, with modifications in the cases of cotton and tobacco.

2. Voluntary adjustment, with penalties against those who refuse to cooperate. This method was followed in the 1934 rice program, and in part in the 1934 tobacco program. The Kerr Act taxed non-cooperating tobacco growers to prevent them from sharing in the increase in tobacco price brought about by the cooperation of the growers who signed contracts. This program also involved benefit payments to cooperating farmers.

3. Dropping production control entirely and using marketing control instead, with each farmer given his pro rated share of the domestic market at a fixed domestic price, and with the surplus going into the foreign market at whatever the world market price might be. This is known as the "pro-rate, two-price system."

4. Using a combination of stabilization purchases and loans to farmers in years of large crops and low prices, offering loans above the market price much as has been done with the 1933 corn crop, requiring borrowers to agree to reduce acreage by some specified amount the succeeding year, and assuring that enough farmers accept loans to make the plan effective in controlling supply.

5. Dropping production control and restoring foreign purchasing power by (a) loaning approximately $500,000,000 annually to foreign nations, or (b) by lowering tariffs sufficiently to cause imports to exceed exports by at least $500,000,000 annually.

6. Compulsory control of production either by license or by taxation, the latter as in the Bankhead Act.

7. Government purchases of sub-marginal land, which would be a very slow process of making adjustment in commercial farm production.

Farming can be adjusted to keep supply within the limits of what the markets will take at fair prices, without doing anything, if the American people are willing to pay the price of this form of adjustment by starving out enough farmers to bring production down to the desired level.

Forcing adjustments by compulsion or by imposing penalties is a resort of doubtful value unless practically all farmers want it.

The effect of the two-price system on the consumer would not differ from that of the processing tax. The administrative difficulties would be greater under the two-price system than under the processing-tax system because the Government would be forced to supervise every processing and marketing operation and to determine whether given lots of goods were for foreign or domestic consumption. Furthermore, an increase in acreage and production might be expected in time, under the stimulus of higher domestic prices, with a greater and greater surplus to go out on the world markets at the lower world price. This usually constitutes "dumping."

The proposal to make commodity loans in years of large crops and low prices runs the risk that any stabilization effort involves. However,

under this plan, it would be possible to grant loans only to producers who agreed to reduce acreage the following year. Even in time of depression, excessively low prices might thereby be avoided by having the supply reasonably well adjusted to demand. It would be necessary to draw the initial capital from the Treasury, and the proposal would therefore be only a partial substitution for some form of taxation. Perhaps the most difficult obstacle would be the influence on market prices that would be exerted by the stocks of commodities held under loan. It would be necessary to find a way to release these commodities without unduly depressing market prices.

Restoring foreign purchasing power by loaning large sums of money abroad is the logical procedure for a great creditor nation like the United States, but only if the debtors are permitted to pay their obligations in the only way most of them can pay the United States---in goods and services. That involves an increase in our imports of goods and services roughly corresponding to the total of our loans abroad. Only under this condition is the loaning policy basically sound.

Other Ways of Raising Money to Pay for Adjustments

Under the Agricultural Adjustment Act the processing taxes are the only means provided for obtaining sufficient funds to make benefit payments which enable farmers to adjust their production.

Substitute financing devices might be; (1) Increases in the present income taxes; (2) a general sales tax or a luxury tax.

A general sales tax that would provide the $500,000,000 a year which is approximately the sum now derived from processing taxes, would have to be at the rate of about 1.25 percent on all manufactured commodities. The processing taxes on wheat, cotton, tobacco, corn, and pork products represent, on the average, about 30 percent of the value of those commodities. The processing tax on a basic agricultural commodity provides, for remedying the situation of that commodity, money that is obtained from the consumers of that particular product, and thus emphasizes the nature and magnitude of the trouble with that commodity. It measures the discrepancy between the market price of the commodity and its fair-exchange value. A serious disadvantage in raising large funds through a general sales tax would be the political pressure that would surely be brought to bear by representatives of different commodities, each endeavoring to get a share of the money.

If income taxes were increased, it might be urged that the additional revenue, instead of being used to make agricultural adjustment possible, should be devoted more exclusively to such general social purposes as social insurance, scientific research, unemployment insurance, and the educational activities of the Federal Government. There is the further practical objection that it is not likely that substantially higher income taxes will be voted by Congress against the influence of high income-tax payers.

THE PROCESSING TAX

TOPIC II. The Processing Tax and How It Operates

1. Do the AAA benefit payments add to the U. S. debt?
2. Who collects the processing tax?
3. From whom is the tax collected?
4. Does the processing tax make it hard for the farmer to sell his products in foreign countries?
5. What is "parity price" for a commodity?
6. How is the rate of the processing tax determined?
7. For how long a period of time does a processing tax stay in effect?
8. May the rate of the tax be changed in mid-season? How?
9. What is a compensating tax, and why is it levied?
10. Does it matter whether more processing taxes are collected in one state than in others?

TOPIC II. The Processing Tax and How it Operates

Benefit Payments Derived from Processing Taxes Do Not Add to the Public Debt: Benefit payments that are derived from processing taxes and made to farmers who cooperate in adjustment programs, do not come from direct appropriations by Congress. These benefit payments do not add to the public debt. They are matched by the processing taxes collected by the United States Bureau of Internal Revenue from the first domestic processors of farm products, that is, from millers, cotton-textile manufacturers, and packers. These taxes are not assessed against farm products that are exported and therefore do not, in themselves, have any effect on export trade.

What Decides the Rate? The maximum rate of the processing tax as imposed under the Agricultural Adjustment Act is the difference between the current average farm price of the commodity concerned, and its fair-exchange value, or "parity." Parity is not a price fixed in dollars and cents. It is that price for the farm commodity which will make it exchange for the same amount of goods farmers buy, as it would exchange for before the War, in 1909-1914. For instance, in 1932 it took two bushels of wheat to buy as much as one bushel would buy before the War.

The difference between the current average farm price of wheat in 1933 when the wheat-adjustment program was inaugurated, and the parity price, was 30 cents per bushel, and the rate of the processing tax was accordingly fixed at that figure.

The rate of the tax is fixed by the Secretary of Agriculture in accordance with the provisions of the Agricultural Adjustment Act. The tax is in effect during the marketing year specified in the Secretary's proclamation of his intention to make benefit payments on wheat. It may be changed during the year if the Secretary finds it necessary to adjust it in order to effectuate the purposes of the Act.

If the full rate of the tax is found to cut down consumption and thus to cause surpluses to accumulate and depress the market price, the Secretary of Agriculture may lower the rate. This has been done in the case of corn and hogs.

What Is a Compensating Tax?

Processing taxes may put the processors of products on which they are levied, at a disadvantage in competing with substitutes. To keep competition in balance the Secretary may levy compensating taxes on these substitute products. This has been done on jute and paper where they come into competition with cotton.

Imported products of a commodity on which there has been levied a processing or compensating tax are subject to a tax, at the same rate as the processing or compensating tax, in addition to any import duty that may already be levied upon them. This tends to maintain the usual balance of competition between imported goods and those made in the United States.

Some States Pay More Processing Taxes than Others:

Naturally, collections of processing taxes are greater in some regions than in others. For instance, about one-fifth of all the processing taxes on wheat are collected in Minnesota. This does not mean that the people of Minnesota are being taxed more heavily than those who live in other States. The tax is distributed all over the United States in the form of slightly higher prices for wheat. It only means that Minnesota is a big wheat-milling center and that the "first domestic processing" of wheat is heavily concentrated in that State.

In the same way nearly half the corn-hog processing taxes are collected in Illinois, because Chicago is a great meat-packing center. Because North Carolina is a tobacco and cotton-textile manufacturing region more than 19 millions out of 128 millions of dollars paid in cotton-processing taxes were collected there, and nearly 4 million dollars out of 14 millions collected in tobacco-processing taxes were gathered in that State.

Farmers Exempt from Tax:

Farmers do not have to pay processing taxes on products raised by themselves and used at home.

THE PROCESSING TAX

TOPIC III. How Processing Taxes Have Affected Farmers

1. How did total farm income increase from 1932 to 1934?

2. To what things do you think this was due?

3. What was the increase in cotton income? Wheat? Hogs?

4. Do middlemen lose by the processing tax-adjustment programs? How?

5. Does increased American cotton price cut American cotton consumption much?

6. Does the cotton processing tax increase price of American cotton abroad?

7. How much does the average American pay out in cotton processing taxes?

8. Have American wage earners been hurt or helped by the cotton program?

9. Does the price of wheat have much to do with consumption of wheat?

10. What is the big difference between consumption of pork, and that of wheat and cotton in America?

11. How does the hog farmer chiefly benefit from an adjustment program?

12. When does the farmer pay the hog-processing tax? The consumer? The packer?

13. Who do you think is paying the hog-processing tax now?

14. If the farmer paid all the hog-processing tax last year, did he gain or lose by cooperating?

15. Aside from drought and cattle buying program, who did better in 1934, the cattle man or the hog man?

TOPIC III. How Processing Taxes Have Affected Farmers

Farm Income Increased

No one claims that all the increases in farm prices since 1932 have been due to the processing tax-adjustment programs. The devaluation of the dollar, and the drought, were partly responsible. Much of the large increase in total farm income, however, is due to the adjustment programs

and benefit payments. The total American farm income in 1932 was about four and one-half billion dollars; in 1933 it was little over five billions; in 1934, in spite of the drought, it was about six billions.

The cotton income in 1932 was $483,912,000. In 1934 it was $871,420,000. (1) Of this increase of nearly $400,000,000, benefit payments contributed $115,400,000. (2)

The wheat income in 1932 was $195,000,000. In 1934 it was $382,000,000. Of this amount, $101,600,000 (3) was in benefit payments.

In 1932, total cash hog income was $439,536,000. In 1934, the hog income was increased to $497,000,000, to which was added $159,153,000 in benefit payments, making a total of $656,153,000.

Generally, the net result of an adjustment program is to increase prices to consumers slightly, and to increase farmers' incomes greatly. Losses to middleman through the operation of adjustment programs tend to arise from reduction in total business handled. In most cases, middlemen have widened their margins to take care of the processing tax and other increased costs.

However, in the case of tobacco, prices to consumers have not been increased, although prices to producers have risen, and the increased return to the producers has come from a narrower margin to the processor and distributor. Again, in the case of sugar, prices to consumers have not risen, while returns to growers have been increased by benefit payments, because a reduction in the sugar tariff, equal to the amount of the processing tax, has accompanied the imposition of that tax.

How the Tax Worked with Cotton

The 1933-34 processing tax on cotton produced over 115 million dollars. The value of the crop, because of the adjustment program and other causes, increased by about 387 million dollars.

The demand for cotton in the United States is relatively inelastic, that is, when the level of industrial activity is the same, Americans consume about the same amount of cotton each year, regardless of price. It is estimated that American consumption of cotton will not fall off more than one-half million bales because of the processing tax. The tax does not increase the price of American cotton in foreign markets. The restriction of American production helps to strengthen world cotton prices. The 12-cent cotton loan may have put American cotton out of line with foreign growths for the time being, but this had nothing to do with the processing tax and the adjustment programs proper.

---

(1) As of December 1, 1934.
(2) Taken from contracts.
(3) Estimated.

The cotton processing tax is 4.2 cents a pound. A rough rule for figuring how much that adds to the price of cotton goods is to multiply the number of pounds in a piece of cotton goods by 5.5 cents. It is estimated that the cotton processing tax has cost the American people an average of 93 cents per person per year, or less than 8 cents per month. On the other hand, the higher income of cotton farmers has boosted American business activity and has helped American wage earners.

How the Tax Worked With Wheat

The consumption of wheat in America is comparatively steady, regardless of price. Per capita consumption was 5.48 bushels in 1919-1920; 4.32 bushels in 1924-1925; 4.44 bushels in 1929-1930; 4.95 bushels in 1932-1933; and probably about the same in 1933-1934.

The processing tax on wheat has not been borne by the millers but has been passed on to the consumer. The tax has not put wheat prices out of line with the prices of other products; has not appreciably decreased consumption; and, since it does not apply to exported products, has not affected the position of American wheat competing in world markets.

How the Tax Worked with Hogs

In analyzing the effect of the hog processing tax, it is essential first to know what had, in the past, usually resulted from changes in hog supplies before the present type of adjustment program, including the tax, was inaugurated.

The domestic demand for hogs and hog products in the past has been relatively inelastic; that is, at a given level of income, consumers have not tended, as in the case of wheat, to spend more money for a small quantity than for a large one. Within reasonable limits, however, they have tended to spend as much. For the smaller crop, they paid more per pound; for a larger crop they paid less per pound.

But while the consumers' total expenditures for hog products tended to remain more or less stationary at a given level of income, the total in-between costs and margins for transporting, processing, and distributing the hog crop tended to increase as the size of the crop increased. Obviously, a larger crop involves more expense in handling. Hence, with a larger crop, a larger sum for transporting, processing, and distributing, was subtracted from the more or less stable aggregate sum the consumer spent. The result was a smaller return to the producer on the larger production. Conversely, an adjustment in hog numbers to eliminate excessive production has tended in the past to result in a larger return to the producer, even though consumers as a group did not spend any larger percentage of their income for hog products following such adjustment.

Is the adjustment in hog numbers under the present corn-hog control program, financed by the processing tax, having the same usual effect of raising hog producers' income; that is, causing a reduction in total handling costs on the one hand but without causing any material change in consumers' total expenditures for hog products?

Under the adjustment program, the processor must pay to the Government a specified rate of tax on each pound of live hog that he processes. There are three possible alternatives in allocating the burden of that tax.

First, the processor might reduce his own margins per hundredweight of hogs processed, by an amount equal to the tax. In this case, the price paid producers for live hogs would show not only the usual increase per hundredweight as adjustment in supplies took place, but also would be independently and immediately increased by the amount of the processing tax itself. At the same time retail prices of hog products would make the usual advance proportionate with the changes in hog supplies but consumers would not tend to increase their total expenditures for the available supply of hog products.

Under the second alternative, the processor, instead of reducing his margins, might increase retail prices, by the amount of the tax, over what they otherwise would be. That is, the processor might attempt to build the processing tax onto the existing retail price and thereby cause consumers to pay more for hog products than they normally would be expected to pay with respect to the same supply. In this case also, the price of live hogs would be increased by the amount of the tax as well as by the "saving" in handling costs resulting from production adjustment.

Or finally, if he did not follow the first alternative and failed in the second alternative, the processor might reduce his bids for live hogs by the amount of the tax. In this case, the return to farmers as a group from the open market price will be lower than otherwise would be the case. But since the processing taxes eventually are paid back to producers cooperating in the corn-hog adjustment program, the total return to farmers as a group, even before the adjustment in hog supplies, would be practically as great as before the tax was imposed. Then as adjustment took place, the total income of hog producers including the benefit payments would rise to the extent of the "savings" in handling costs.

Regardless of which alternative the processor follows in allocating the burden of the tax, that is, regardless of who bears the tax, the open market price is free to reflect the "savings" in the total handling costs associated with more moderate hog supplies. If the processing tax should cause consumers to spend more in total for the adjusted supply than they normally would be expected to spend, then the increase in hog producers' income resulting from the "savings" in total handling costs might represent a gain in producers' income which is wholly in addition to the benefit payments.

Studies indicate that the adjustment in hog production under the Agricultural Adjustment Act has caused the retail price of pork and lard to increase to an extent which is about proportionate with the usual increase expected from a similar change in supply. It appears that consumers as a group are bearing the hog processing tax mainly in the sense that they are getting a more moderate supply of pork and lard for an expenditure which is fully proportionate with but not materially in excess of past total expenditures at a similar level of income. An individual consumer who is buying the same amount of hog products as formerly is,

of course, spending relatively more than before the adjustment in supply took place.

It is true that consumers' total expenditures for hog products in dollars and cents have been increasing during the past two years, but this appears to be due largely to rising consumers' incomes rather than to the processing tax.

A review of processors' margins indicates that while they have varied from months to month, the average net handling charge per hundredweight of hogs processed on which the packer actually operates has tended to decline somewhat since the processing tax became effective in November, 1933. It cannot be definitely determined yet whether this tendency for processors operating margins to decline is temporary or permanent. However, it was not expected that the processors' net margin would absorb a large part of the tax since this margin in total normally averages between $1.50 and $2.00 per hundredweight of hogs, live weight basis, as compared with the processing tax of $2.25 per hundredweight.

A review of the effect upon producers indicates that the production adjustment program, including the tax, is resulting in substantially higher hog prices and, including the benefit payments, in a larger total income. As expected a reduction in total handling costs has taken place as the supply of hogs became smaller. At the same time consumers' total expenditures have held up well and processors' net margins per unit of product handled have tended to decline rather than increase. The cash income from hogs in 1934, including corn-hog benefit payments, was slightly more than $656,000,000 as compared with $439,536,000 in 1932 when hog production was yet excessive.

It is not easy to make an analysis of the effects of the processing tax on consumers' expenditures, handlers' margins or return to producers, particularly with respect to hogs, because of day-to-day and week-to-week variations in hog marketings, changing trends in consumers' incomes and fluctuations in other factors affecting market value of farm commodities. It is easy to be misled by changes in the market value of corn and hogs, which are due to other things than the collection of the processing taxes.

THE PROCESSING TAX

TOPIC IV. The Effect of Processing Taxes on Consumers

1. How much did Americans spend in 1934 for retail purchases?

2. How much did processing taxes total in 1934?

3. How much can it be figured that processing taxes added to the cost of living in 1934?

4. What does the processing tax amount to on cotton goods? Bread and flour? Retail pork cuts?

5. How much did processing taxes increase total wheat and cotton income in 1934?

6. What protection does the consumer have against farmers running up prices too high on them?

7. How did low farm prices hurt consumers?

8. How did benefit payments help business?

9. Did wages and payrolls in cities increase as fast as food prices?

10. Has farm income gone up as fast as prices of things farmers have to buy?

TOPIC IV. The Effect of Processing Taxes on Consumers

What Processing Taxes Have Added to Cost of Living

In 1934 total retail sales in the United States are estimated to have been about 28.5 billion dollars. Processing taxes for 1934 were less than one-half billion dollars, or less than 2 percent of the total retail expenditures in that year. About half of the processing taxes collected did not represent added expenditures by consumers. Consumers spent no more for pork with the processing tax than they would have without it, although they got less pork for the money they spent; the sugar processing tax of 45 million dollars was offset by tariff reductions on sugar; and the 25 million dollars in tobacco processing taxes was not added to retail prices.

What Is the Tax in Terms of Retail Prices?

A 30-cent-per-bushel wheat processing tax means about 3/4th of a cent more for a pound of flour which sells in city stores for about 5 cents per pound, or 1/2 cent more for a one-pound loaf of bread which sells for an average of 8.9 cents. But this tax increased farm wheat income more than 50% the first year.

The cotton processing tax of 4.2 cents per pound on raw cotton adds about 8 cents to the price of a pair of overalls costing $1.60; less than 8 cents on a sheet costing $1.30; adds about 3 1/2 cents to the price of work shirts which sell for about 90 cents; and adds about 1.1 cents per yard to the cost of unbleached muslin which sells for 14 cents per yard. Yet the processing tax-adjustment program played a big part in doubling the South's cotton income. The tax itself paid out in benefit payments increased income more than one-fourth.

The hog tax of $2.25 amounts to about 4-1/2 cents per pound added to prices of retail pork cuts.

A very small increase in retail prices means a very large increase in farm income.

How the Consumer Is Protected.

Two provisions in the Agricultural Adjustment Act are designed to protect the consumer from undue retail price increases caused by operations under the Act.

The use of processing taxes, adjustment programs, and benefit payments is limited to: (1) Restorning purchasing power of farm products to what it was before the World War; and (2) restoring to the farmer the same percentage of the consumers' expenditures for farm products that he received before the war.

Beyond this the program can not go according to the Act. These provisions protect the consumer against having to pay more than is just, fair, and right to the farmer.

How the Program Has Helped Consumers

Increased farm buying power, brought about through increases in farm income, has helped the consumer. Low food prices were costly to consumers when they reduced the buying power of one fourth of the Nation. This lost buying power of farmers, it is estimated, put four million men out of work, in the cities.

The revival of farm buying power was first felt in retail lines in agricultural states, and then in the populous industrial states. The benefit payments had marked effects in speeding up the velocity of money, that is, causing it to be spent freely and quickly with resulting good effects on business. This was due to the fact that these payments could not be legally attached for debt, and because buying power increased by such a large amount in so short a time.

From March 1933 to June 1934 food prices rose 20% due to short wheat and potato crops, to devaluation of the dollar and the resulting rise in prices of export commodities, in part to improved consumer buying power, and in part to the processing tax-adjustment programs. The pay rolls in manufacturing industries went up much faster than food prices, and because incomes went up faster than food, consumers benefitted. On the other hand, farm income went up faster and farther than prices of things the farmer buys. The purchasing power of the farmer' dollar was about 50 cents on the dollar in 1932 -- now it is up to about 80 cents on the dollar.

THE PROCESSING TAX

TOPIC V. Advantages and Disadvantages of Processing Taxes

1. Is it true that poor people pay a large part of the processing tax?

2. Do poor people not gain some advantage from processing taxes?

3. Has any way been worked out to increase farm income without raising retail prices?

4. What effect does a small advance in retail prices have on farm prices?

5. What are other criticisms of processing taxes? What do you think of these criticisms?

6. What are the advantages of processing taxes as a means of getting money to give farmers a square deal?

7. Can you figure out as good a way for helping farmers help themselves out of a dangerous situation as through processing tax-adjustment programs?

8. When would you discontinue such programs?

9. If such programs are discontinued would you substitute any other kind of program?

TOPIC V. Advantages and Disadvantages of Processing Taxes

Disadvantages:

(1) It has been asserted that the processing tax, because it applies to food and clothing, which are necessities of life, bears more heavily upon the poor than upon the well-to-do. This criticism overlooks the fact that increased farm income means increased farmer purchasing power for the goods and services which mean employment and wages to workers in the cities.

It overlooks, too, the fact that the processing tax is a means of returning to the farmer a fair price for his products, which he has been supplying to the Nation for several years at prices less than fair, prices that did not enable him to stay in business. This is true because the benefit payments made possible through the processing taxes supplement that share of his return which the farmer gets when he sells his goods on the market.

In general, and within the limits of certain temporary variations, an individual consumer's share of the processing tax is determined by the amount of taxable commodities which he purchases.

City consumers may have profited for a time by being able to buy farm goods at low prices, but they have lost, through those same low prices, in the farmers' ability to buy goods manufactured in the city. This loss has caused a decline in factory employment and payrolls.

(2) It is sometimes charged that because processing taxes are levied upon the first domestic processing of a farm commodity, succeeding handlers of the product have an opportunity to pyramid the tax, each one adding a little to it so that by the time the product reaches the consumer, the tax has been increased considerably. There is little evidence that this has taken place, and the Secretary of Agriculture is empowered under the Act to use publicity measures in preventing pyramiding and profiteering.

(3) Processing taxes are, in most cases, reflected in higher retail prices, and consumers object to the taxes for that reason. Nor are they likely to cease disliking the tax, although they are protected by the terms of the Adjustment Act itself from having to pay more than a fair price for farm goods, and although the revival of farm purchasing power through increases in farm prices and through rental and benefit payments to farmers, has resulted in substantial improvement in farmers' demand for industrial goods. It is important that even a small increase in the retail price of a farm product results in a relatively large increase in farm income from the raw material.

Advantages:

(1) The processing tax is easy and inexpensive to collect, and hard to evade.

(2) The annual proceeds from processing taxes can be forecast accurately, and furnish a steady and reliable income.

(3) Processing taxes apply only to the domestically consumed part of farm production, and do not penalize the exporter.

(4) The farmer is not taxed on products he himself raises for his own food.

(5) Processing tax rates can be quickly and easily adjusted to meet changing market conditions.

(6) Processing taxes and benefit-payment adjustment programs offer the only means thus far devised, for organizing farmers into an effective cooperative effort to adjust their industry for the benefit of themselves and of society as a whole.